



Senate

General Assembly

File No. 383

February Session, 2008

Substitute Senate Bill No. 592

Senate, April 1, 2008

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT ESTABLISHING TAX CREDITS FOR ANGEL INVESTORS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2008, and applicable to taxable years*
2 *commencing on or after January 1, 2008*) (a) As used in this section:

3 (1) "Angel investor" or "investor" means an accredited investor, as
4 defined by the Securities and Exchange Commission, who may seek
5 active involvement in the business, such as consulting and mentoring,
6 but "angel investor" or "investor" does not include (A) persons
7 controlling fifty per cent or more of the Connecticut business invested
8 in, (B) a Connecticut venture capital company, or (C) any bank, bank
9 and trust company, insurance company, trust company, national bank,
10 savings association or building and loan association for activities that
11 are a part of its normal course of business;

12 (2) "Cash investment" means money or money equivalent in
13 consideration for qualified securities;

14 (3) "Connecticut business" means any business or corporation that
15 meets the criteria listed in subsection (c) of this section and is a
16 business owned by an individual or a partnership, association or
17 corporation, and domiciled in Connecticut, or any corporation, even if
18 a wholly-owned subsidiary of a foreign corporation, that does business
19 primarily in Connecticut, or does substantially all of such business's
20 production in Connecticut;

21 (4) "Qualified securities" means (A) any form of equity, including a
22 general or limited partnership interest, common stock, preferred stock,
23 with or without voting rights, without regard to seniority position and
24 whether or not convertible into common stock, any form of
25 subordinate or convertible debt, or both, with warrants or other means
26 of equity conversion attached; or (B) a debt instrument, including a
27 note or debenture that is secured or unsecured, subordinated to the
28 general creditors of the debtor and requiring no payments of principal,
29 other than principal payments required to be made out of any future
30 profits of the debtor, for at least a seven-year period after
31 commencement of such debt instrument's term.

32 (b) There shall be allowed a credit against the tax imposed under
33 chapter 229 of the general statutes for a cash investment in the
34 qualified securities of a Connecticut business by an angel investor. The
35 credit shall be in an amount equal to twenty-five per cent of such
36 investor's cash investment, provided no credit shall be greater than one
37 hundred twenty-five thousand dollars.

38 (c) To be an eligible cash investment qualifying for a tax credit
39 pursuant to this section, such investment shall be in a business that (1)
40 has been listed as a Connecticut business pursuant to subsection (d) of
41 this section, (2) has had annual gross revenues of less than five million
42 dollars in the most recent income year of the business, (3) has fewer
43 than twenty-five employees, more than half of whom reside in this
44 state, (4) has been operating in this state for less than ten consecutive
45 years, (5) is primarily owned by the management of the business and
46 their families, and (6) received less than one million dollars in the tax

47 credits provided by this section. No investor may claim a credit
48 pursuant to this section for cash investments in Connecticut
49 Innovations, Inc.

50 (d) (1) A Connecticut business may contact the Commissioner of
51 Economic and Community Development for inclusion on a listing of
52 Connecticut businesses qualified to receive cash investments eligible
53 for tax credits pursuant to this section. The information submitted to
54 said commissioner shall include (A) the name of the business and a
55 copy of the organizational documents of such business; (B) a business
56 plan, including a description of the business and the management,
57 product, market and financial plan of the business; (C) a statement of
58 the business innovative and proprietary technology, product or
59 service; (D) a statement of the potential economic impact of the
60 enterprise, including the number, location and types of jobs expected
61 to be created; (E) a description of the qualified securities to be issued,
62 the consideration to be paid for the qualified securities, the amount of
63 any tax credits requested and the earliest year in which such tax credits
64 may be redeemed; (F) a statement of the amount, timing and projected
65 use of the proceeds to be raised from the proposed sale of qualified
66 securities; and (G) such other information as said commissioner may
67 request.

68 (2) The Commissioner of Economic and Community Development
69 shall, on or before August 1, 2008, and monthly thereafter, compile a
70 list, categorized by estimated amount of tax credit and type of
71 qualified securities offered, submitted by Connecticut businesses.

72 (3) At such time as a Connecticut business on the list created
73 pursuant to subdivision (2) of this subsection has entered into an
74 agreement with an angel investor, such business shall notify the
75 Commissioner of Economic and Community Development of such
76 agreement, including the amount of the investment and information as
77 to the eligibility of the angel investor for a tax credit pursuant to this
78 section. Upon such notification, said commissioner shall verify the
79 eligibility of such Connecticut business to receive financial assistance

80 pursuant to this section. If said commissioner determines that such
81 Connecticut business is eligible, said commissioner shall reserve the
82 amount of the tax credit attributable to such agreement. The aggregate
83 amount of all tax credits that may be reserved for this program shall
84 not exceed ten million dollars in any one fiscal year, except if tax
85 credits are reserved in an amount exceeding ten million dollars, said
86 commissioner may allow the necessary portion of the ten million
87 dollar total from the succeeding fiscal year to be used for credits
88 reserved in the current fiscal year.

89 (4) The Commissioner of Economic and Community Development
90 shall notify the Commissioner of Revenue Services of the amount of
91 the tax credit that may be issued to an angel investor.

92 (e) (1) The amount of such credit allowed to any investor pursuant
93 to this section shall not exceed the amount of tax due from such
94 investor under chapter 229 of the general statutes with respect to such
95 taxable year. Any tax credit not used in the taxable year during which
96 the cash investment was made may be carried forward for the five
97 immediately succeeding taxable years until the full credit has been
98 allowed.

99 (2) Any credit allowed pursuant to this section may be sold,
100 assigned or otherwise transferred, in whole or in part, to one or more
101 taxpayers, and such taxpayers may sell, assign or otherwise transfer, in
102 whole or in part, such credit. If an investor sells, assigns or otherwise
103 transfers a credit to another taxpayer, the transferor and transferee
104 shall jointly submit written notification of such transfer to the
105 Commissioner of Revenue Services not later than thirty days after such
106 transfer. If such transferee sells, assigns or otherwise transfers a credit
107 under this section to a subsequent transferee, such transferee and such
108 subsequent transferee shall jointly submit written notification of such
109 transfer to the Commissioner of Revenue Services not later than thirty
110 days after such transfer. The notification after each transfer shall
111 include the credit certificate number, the date of transfer, the amount
112 of such credit transferred, the tax credit balance before and after the

113 transfer, the tax identification numbers for both the transferor and the
114 transferee, and any other information required by the Commissioner of
115 Revenue Services. Failure to comply with this subdivision shall result
116 in a disallowance of the tax credit until there is full compliance on the
117 part of the transferor and the transferee and for a second transfer, on
118 the part of the transferee, and the subsequent transferee.

119 (f) The Commissioner of Economic and Community Development
120 shall include information regarding the implementation of the
121 program established pursuant to this section in the report required
122 pursuant to section 32-1m of the general statutes, as amended by this
123 act.

124 Sec. 2. Section 32-1m of the 2008 supplement to the general statutes
125 is repealed and the following is substituted in lieu thereof (*Effective July*
126 *1, 2008*):

127 (a) Not later than February 1, 2006, and annually thereafter, the
128 Commissioner of Economic and Community Development shall
129 submit a report to the Governor and the General Assembly, in
130 accordance with the provisions of section 11-4a. Not later than thirty
131 days after submission of the report to the Governor and the General
132 Assembly, said commissioner shall post the report on the Department
133 of Economic and Community Development's web site. Said report
134 shall include, but not be limited to, the following information with
135 regard to the activities of the Department of Economic and
136 Community Development during the preceding state fiscal year:

137 (1) A brief description and assessment of the state's economy during
138 such year, utilizing the most recent and reasonably available data, and
139 including:

140 (A) Connecticut employment by industry;

141 (B) Connecticut and national average unemployment;

142 (C) Connecticut gross state product, by industry;

143 (D) Connecticut productivity, by industry, compared to the national
144 average;

145 (E) Connecticut manufacturing activity;

146 (F) Identification of economic and competitive conditions affecting
147 Connecticut's industry sectors, problems resulting from these
148 conditions and state efforts to address the problems; and

149 (G) Any other economic information that the commissioner deems
150 appropriate.

151 (2) A statement of the department's economic and community
152 development objectives, measures of program success and standards
153 for granting financial and nonfinancial assistance under programs
154 administered by the department.

155 (3) An analysis of the economic development portfolio of the
156 department, including:

157 (A) A list of the names, addresses and locations of all recipients of
158 the department's assistance;

159 (B) The following information concerning each recipient of such
160 assistance: (i) Business activities, (ii) standard industrial classification
161 codes or North American industrial classification codes, (iii) number of
162 full-time jobs and part-time jobs at the time of application, (iv) number
163 of actual full-time jobs and actual part-time jobs during the preceding
164 state fiscal year, (v) whether the recipient is a minority or woman-
165 owned business, (vi) a summary of the terms and conditions for the
166 assistance, including the type and amount of state financial assistance,
167 job creation or retention requirements and anticipated wage rates, (vii)
168 the amount of investments from private and other nonstate sources
169 that have been leveraged by the assistance, (viii) the extent to which
170 employees of the recipient participate in health benefit plans offered
171 by such recipient, (ix) the extent to which the recipient offers unique
172 economic, social, cultural or aesthetic attributes to the municipality in
173 which the recipient is located or to the state, and (x) the amount of

174 state investment;

175 (C) A portfolio analysis, including (i) an analysis of the wages paid
176 by recipients of financial assistance, (ii) the average portfolio wage,
177 median portfolio wage, highest and lowest portfolio wage, (iii)
178 portfolio wage data by industry, and (iv) portfolio wage data by
179 municipality;

180 (D) An investment analysis, including (i) total portfolio value, (ii)
181 total investment by industry, (iii) portfolio dollar per job average, (iv)
182 portfolio leverage ratio, and (v) percentage of financial assistance
183 which was provided to high performance work organizations in the
184 preceding state fiscal year; and

185 (E) An analysis of the estimated economic effects of the
186 department's economic development investments on the state's
187 economy, including (i) contribution to gross state product for the total
188 economic development portfolio and for any investment activity
189 occurring in the preceding state fiscal year, (ii) direct and indirect
190 employment created by the investments for the total portfolio and for
191 any investment activity occurring in the preceding state fiscal year, (iii)
192 productivity of recipients of financial assistance as a result of the
193 department's investment occurring in the preceding state fiscal year,
194 (iv) directly or indirectly increased property values in the
195 municipalities in which the recipients of assistance are located, and (v)
196 personal income.

197 (4) An analysis of the community development portfolio of the
198 department, including:

199 (A) A list of the names, addresses and locations of all recipients of
200 the department's assistance;

201 (B) The following information concerning each recipient of such
202 assistance: (i) Amount of state investment, (ii) a summary of the terms
203 and conditions for the department's assistance, including the type and
204 amount of state financial assistance, and (iii) the amount of

205 investments from private and other nonstate sources that have been
206 leveraged by such assistance;

207 (C) An investment analysis, including (i) total active portfolio value,
208 (ii) total investments made in the preceding state fiscal year, (iii) total
209 portfolio by municipality, (iv) total investments made in the preceding
210 state fiscal year categorized by municipality, (v) total portfolio
211 leverage ratio, and (vi) leverage ratio of the total investments made in
212 the preceding state fiscal year; and

213 (D) An analysis of the estimated economic effects of the
214 department's economic development investments on the state's
215 economy, including (i) contribution to gross state product for the total
216 portfolio and for any investment activity occurring in the preceding
217 state fiscal year, (ii) direct and indirect employment created by the
218 investments for the total portfolio and for any investment activity
219 occurring in the preceding state fiscal year, (iii) productivity of
220 recipients of financial assistance as a result of the department's
221 investment occurring in the preceding state fiscal year, (iv) directly or
222 indirectly increased property values in the municipalities in which the
223 recipients are located, and (v) personal income.

224 (5) A summary of the department's economic and community
225 development marketing efforts in the preceding state fiscal year, a
226 summary of the department's business recruitment strategies and
227 activities in such year, and a summary of the department's efforts to
228 assist small businesses and minority business enterprises in such year.

229 (6) A summary of the department's international trade efforts in the
230 preceding state fiscal year, and, to the extent possible, a summary of
231 foreign direct investment that occurred in the state in such year.

232 (7) Identification of existing economic clusters, the formation of new
233 economic clusters, the measures taken by the commissioner during the
234 preceding state fiscal year to encourage the growth of economic
235 clusters and the amount of bond funds expended by the department
236 during the previous fiscal year on each economic cluster.

237 (8) (A) A summary of the department's brownfield-related efforts
238 and activities within the Office of Brownfield Remediation and
239 Development established pursuant to subsections (a) to (f), inclusive,
240 of section 32-9cc of the 2008 supplement to the general statutes in the
241 preceding state fiscal year, except for activity under the Special
242 Contaminated Property Remediation and Insurance Fund program.
243 Such efforts shall include, but not be limited to, (i) total portfolio
244 investment in brownfield remediation projects, (ii) total investment in
245 brownfield remediation projects in the preceding state fiscal year, (iii)
246 total number of brownfield remediation projects, (iv) total number of
247 brownfield remediation projects in the preceding state fiscal year, (v)
248 total of reclaimed and remediated acreage, (vi) total of reclaimed and
249 remediated acreage in the preceding state fiscal year, (vii) leverage
250 ratio for the total portfolio investment in brownfield remediation
251 projects, and (viii) leverage ratio for the total portfolio investment in
252 brownfield remediation projects in the preceding state fiscal year. Such
253 summary shall include a list of such brownfield remediation projects
254 and, for each such project, the name of the developer and the location
255 by street address and municipality and a tracking of all funds
256 administered through or by said office;

257 (B) A summary of the department's efforts with regard to the
258 Special Contaminated Property Remediation and Insurance Fund,
259 including, but not limited to, (i) the number of applications received in
260 the preceding state fiscal year, (ii) the number and amounts of loans
261 made in such year, (iii) the names of the applicants for such loans, (iv)
262 the average time period between submission of application and the
263 decision to grant or deny the loan, (v) a list of the applications
264 approved and the applications denied and the reasons for such
265 denials, and (vi) for each project, the location by street address and
266 municipality; and

267 (C) A summary of the department's efforts with regard to the dry
268 cleaning grant program, established pursuant to section 12-263m of the
269 2008 supplement to the general statutes, including, but not limited to,
270 (i) information as to the number of applications received, (ii) the

271 number and amounts of grants made since the inception of the
272 program, (iii) the names of the applicants, (iv) the time period between
273 submission of application and the decision to grant or deny the loan,
274 (v) which applications were approved and which applications were
275 denied and the reasons for any denials, and (vi) a recommendation as
276 to whether the surcharge and grant program established pursuant to
277 section 12-263m of the 2008 supplement to the general statutes should
278 continue.

279 (9) The following information concerning enterprise zones
280 designated under section 32-70:

281 (A) A statement of the current goals for enterprise zones;

282 (B) A statement of the current performance standards to measure
283 the progress of municipalities that have enterprise zones in attaining
284 the goals for such zones;

285 (C) A report from each municipality that has an enterprise zone,
286 which evaluates the progress of the municipality in meeting the
287 performance standards established under section 32-70a; and

288 (D) An assessment of the performance of each enterprise zone based
289 on information collected under subparagraph (C) of this subdivision.

290 (10) With regard to the department's housing-development-related
291 functions and activities:

292 (A) A brief description and assessment of the state's housing market
293 during the preceding state fiscal year, utilizing the most recent and
294 reasonably available data, and including, but not limited to, (i) a brief
295 description of the significant characteristics of such market, including
296 supply, demand and condition and cost of housing, and (ii) any other
297 information that the commissioner deems appropriate;

298 (B) A comprehensive assessment of current and future needs for
299 rental assistance under section 8-119kk for housing projects for the
300 elderly and disabled, in consultation with the Connecticut Housing

301 Finance Authority;

302 (C) An analysis of the progress of the public and private sectors
303 toward meeting housing needs in the state, using building permit data
304 from the United States Census Bureau and demolition data from
305 Connecticut municipalities;

306 (D) A list of municipalities that meet the affordable housing criteria
307 set forth in subsection (k) of section 8-30g, pursuant to regulations that
308 the Commissioner of Economic and Community Development shall
309 adopt pursuant to the provisions of chapter 54. For the purpose of
310 determining the percentage required by subsection (k) of said section
311 8-30g, the commissioner shall use as the denominator the number of
312 dwelling units in the municipality, as reported in the most recent
313 United States decennial census; and

314 (E) A statement of the department's housing development
315 objectives, measures of program success and standards for granting
316 financial and nonfinancial assistance under programs administered by
317 said commissioner.

318 (11) A presentation of the state-funded housing development
319 portfolio of the department, including:

320 (A) A list of the names, addresses and locations of all recipients of
321 such assistance; and

322 (B) For each such recipient, (i) a summary of the terms and
323 conditions for the assistance, including the type and amount of state
324 financial assistance, (ii) the amount of investments from private and
325 other nonstate sources that have been leveraged by the assistance, (iii)
326 the number of new units to be created and the number of units to be
327 preserved at the time of the application, and (iv) the number of actual
328 new units created and number of units preserved.

329 (12) An analysis of the state-funded housing development portfolio
330 of the department, including:

331 (A) An investment analysis, including the (i) total active portfolio
332 value, (ii) total investment made in the preceding state fiscal year, (iii)
333 portfolio dollar per new unit created, (iv) estimated dollars per new
334 unit created for projects receiving an assistance award in the preceding
335 state fiscal year, (v) portfolio dollars per unit preserved, (vi) estimated
336 dollar per unit preserved for projects receiving an assistance award in
337 the preceding state fiscal year, (vii) portfolio leverage ratio, and (viii)
338 leverage ratio for housing development investments made in the
339 preceding state fiscal year; and

340 (B) A production and preservation analysis, including (i) the total
341 number of units created, itemized by municipality, for the total
342 portfolio and projects receiving an assistance award in the preceding
343 state fiscal year, (ii) the total number of elderly units created for the
344 total portfolio and for projects receiving an assistance award in the
345 preceding state fiscal year, (iii) the total number of family units created
346 for the total portfolio and for projects receiving an assistance award in
347 the preceding state fiscal year, (iv) the total number of units preserved,
348 itemized by municipality, for the total portfolio and projects receiving
349 an assistance award in the preceding state fiscal year, (v) the total
350 number of elderly units preserved for the total portfolio and for
351 projects receiving an assistance award in the preceding state fiscal
352 year, (vi) the total number of family units preserved for the total
353 portfolio and for projects receiving an assistance award in the
354 preceding state fiscal year, (vii) an analysis by income group of
355 households served by the department's housing construction,
356 substantial rehabilitation, purchase and rental assistance programs, for
357 each housing development, if applicable, and for each program,
358 including number of households served under each program by race
359 and data for all households, and (viii) a summary of the department's
360 efforts in promoting fair housing choice and racial and economic
361 integration, including data on the racial composition of the occupants
362 and persons on the waiting list of each housing project that is assisted
363 under any housing program established by the general statutes or a
364 special act or that is supervised by the department, provided no
365 information shall be required to be disclosed by any occupant or

366 person on a waiting list for the preparation of such summary. As used
367 in this subparagraph, "elderly units" means dwelling units for which
368 occupancy is restricted by age, and "family units" means dwelling
369 units for which occupancy is not restricted by age.

370 (13) An economic impact analysis of the department's housing
371 development efforts and activities, including, but not limited to:

372 (A) The contribution of such efforts and activities to the gross state
373 product;

374 (B) The direct and indirect employment created by the investments
375 for the total housing development portfolio and for any investment
376 activity for such portfolio occurring in the preceding state fiscal year;
377 and

378 (C) Personal income in the state.

379 (14) With regard to the Housing Trust Fund and Housing Trust
380 Fund program, as those terms are defined in section 8-336m:

381 (A) Activities for the prior fiscal year of the Housing Trust Fund and
382 the Housing Trust Fund program; and

383 (B) The efforts of the department to obtain private support for the
384 Housing Trust Fund and the Housing Trust Fund program.

385 (15) With regard to the department's energy conservation loan
386 program:

387 (A) The number of loans or deferred loans made during the
388 preceding fiscal year under each component of such program and the
389 total amount of the loans or deferred loans made during such fiscal
390 year under each such component;

391 (B) A description of each step of the loan or deferred loan
392 application and review process;

393 (C) The location of each loan or deferred loan application intake site

394 for such program;

395 (D) The average time period for the processing of loan or deferred
396 loan applications during such fiscal year; and

397 (E) The total administrative expenses of such program for such
398 fiscal year.

399 (16) With regard to the angel investor program established pursuant
400 to section 1 of this act:

401 (A) Information on marketing and outreach efforts to publicize said
402 program;

403 (B) The number of Connecticut businesses on the list compiled
404 pursuant to section 1 of this act and the number of such businesses
405 subsequently verified as eligible to participate in said program;

406 (C) The number of angel investors participating in said program,
407 either through inquiry or through investment in a Connecticut
408 business;

409 (D) The aggregate amount of tax credits reserved;

410 (E) Any ascertainable results of the investments attributable to said
411 program, for Connecticut businesses participating in said program and
412 for local economies; and

413 (F) Recommendations for changes or improvements to said
414 program.

415 [(16)] (17) A summary of the total social and economic impact of the
416 department's efforts and activities in the areas of economic,
417 community and housing development, and an assessment of the
418 department's performance in terms of meeting its stated goals and
419 objectives.

420 (b) Any annual report that is required from the department by any
421 provision of the general statutes shall be incorporated into the annual

422 report provided pursuant to subsection (a) of this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2008, and applicable to taxable years commencing on or after January 1, 2008</i>	New section
Sec. 2	<i>July 1, 2008</i>	32-1m

FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 09 \$	FY 10 \$
Department of Revenue Services	GF - Revenue Loss	See Below	See Below
Department of Economic & Community Development	GF - Cost	69,000	66,000
Department of Revenue Services	GF - Cost	150,000 to 200,000	None
Comptroller Misc. Accounts (Fringe Benefits) ¹	GF - Cost	16,700	38,700

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill could result in a General Fund revenue loss to the personal income tax of up to \$10 million (the cap) per year beginning in FY 09. However, the initial revenue loss is likely to be less than \$10 million because of the limited number of Angel Investors currently active in Connecticut.

The bill will result in a cost to the Department of Economic and Community Development (DECD) attributable to a full time position to administer the program and office equipment and supplies. Implementation will require the agency to:

1. Review applications from Connecticut businesses qualified to receive an

¹ The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The first year fringe benefit costs for new positions do not include pension costs. The estimated first year fringe benefit rate as a percentage of payroll is 25.36%. The state's pension contribution is based upon the prior year's certification by the actuary for the State

investment;

2. Maintain a list of estimated tax credits and the type of qualified securities submitted by the qualified business;

3. Record the amount of the investment and the eligibility of the angel investor for a tax credit once an agreement between the business and investor is made; and,

4. Notify DRS of the amount of the tax credit that may be issued to the angel investor.

The salary for the position would start at approximately \$66,000 plus fringe benefits (a cost to the State Comptroller's Fringe Benefit Account of approximately \$16,700 in the first year and \$38,700 thereafter). Office equipment such as a computer and additional supplies would cost approximately \$3,000.

The bill will also result in a one-time cost in FY 09 to the Department of Revenue Services of between \$150,000 and \$200,000 for systems development to administer the credit.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Employees Retirement System (SERS). The SERS fringe benefit rate is 33.27%, which when combined with the rate for non-pension fringe benefits totals 58.63%.

OLR Bill Analysis**sSB 592*****AN ACT ESTABLISHING TAX CREDITS FOR ANGEL INVESTORS.*****SUMMARY:**

This bill establishes a transferable state income tax credit for eligible people, known as “angels,” who invest in qualified Connecticut start-up businesses. The credit is 25% of a cash investment up to a maximum of \$125,000.

Angels can carry unused credits forward for up to five years or can sell or otherwise transfer them to another taxpayer, who can in turn transfer them to a third person. The bill limits total credits to \$10 million per year for all investments, but allows the limit to be increased in any year by amounts advanced from the following year’s limit.

The bill establishes criteria for credit-eligible investors, investments, and businesses, as well as a procedure for accessing the angel credits. It requires the Department of Economic and Community Development (DECD) commissioner to report on the credits in her annual report to the governor and the General Assembly.

EFFECTIVE DATE: July 1, 2008. The credits apply to income years starting on or after January 1, 2008.

ANGEL INVESTORS

To be an angel investor, a person must qualify as an “accredited investor” under the Securities and Exchange Commission (SEC) rules (Accredited investors are high-income, high-net-worth, or financially sophisticated individuals and entities - see BACKGROUND). Angels may seek active involvement in the businesses in which they invest, through consulting or mentoring, but the following investors are ineligible:

1. a person who controls 50% or more of the business in which the investment is made;
2. a Connecticut venture capital company; and
3. any bank, savings and loan association, trust, insurance company, or similar entity for activities that are part of its normal business.

ELIGIBLE BUSINESSES

Qualifying Criteria

To receive a credit-eligible angel investment, a business must:

1. (a) have its principal place of business in Connecticut or (b) be a corporation that, even if it is the wholly owned subsidiary of an out-of-state corporation, either does business primarily, or has substantially all its production, in the state;
2. have gross revenue under \$5 million for its most recent income year;
3. have fewer than 25 employees with more than half living in Connecticut;
4. have operated in Connecticut for less than 10 consecutive years;
5. be primarily owned by its management and their families;
6. have received less than \$1 million in angel credits; and
7. be included on DECD's list of businesses qualified to receive credit-eligible angel investments.

The business receiving the angel investment can be owned by an individual, partnership, association, or a corporation.

List of Qualifying Businesses

The bill requires DECD to issue the first list of qualifying businesses by August 1, 2008 and update it monthly thereafter. The list must

categorize businesses by the estimated amount of their tax credits and the types of qualified securities they offer.

To be listed, a business must contact the DECD commissioner and provide:

1. its name and a copy of its organizational documents;
2. a business plan that includes a description of the business and its management, product, market, and financial plan;
3. a statement of its innovative and proprietary technology, product, or service;
4. a statement of its potential economic impact, including the number, types, and location of the jobs it expects to create;
5. a description of the qualified securities it offers, their cost, the amount of requested tax credits, and the earliest year the credits can be redeemed;
6. the amount, timing, and projected use of the funds raised from the sale of the securities; and
7. any other information the commissioner requires.

QUALIFIED SECURITIES

To be eligible for a credit, an angel must make a cash investment in the business' qualified securities. These securities can be equity or debt instruments. Equity can include general or limited partnership interests, any type of common or preferred stock, or any combination of subordinate or convertible debt with a means of equity conversion attached. Debt instruments can be secured or unsecured, but must (1) be subordinated to the debtor's general creditors and (2) require no payments of principal, other than payments out of the debtor's future profits, for at least the first seven years their term.

Cash investments in Connecticut Innovations, Inc., which is the

state's own venture capital entity, are ineligible for angel credits.

ACCESSING CREDITS

When an eligible business makes an agreement with an angel investor, it must notify DECD of the investment amount and information on the investor's eligibility for credits under the bill. When the commissioner receives the notice, she must verify the business' eligibility for angel investments, reserve the amount of credits attributable to the agreement, and notify the revenue services commissioner of the credit amount.

USING OR TRANSFERRING CREDITS

Credits cannot exceed an investor's total income tax due for a particular year. Investors can carry forward unused credits for up to five succeeding years or can sell or otherwise transfer them to others who may transfer them a second time. When a transfer occurs, the seller and the buyer must jointly notify the revenue services commissioner within 30 days and provide the (1) credit certificate number, (2) the transfer date, (3) the amount of credits transferred, (3) the tax credit balance before and after the transfer, (4) the tax identification numbers of both parties, and (5) any other information the commissioner requires. Violation of the notice requirement disallows the credits until the parties comply.

DECD ANNUAL REPORT

The bill requires the DECD commissioner to include information about the angel investor program in her report to the governor and the General Assembly on DECD's activities due annually by February 1. The report must provide:

1. information on DECD's outreach for, and marketing of, the angel investor program;
2. the number of businesses on DECD's list and the number DECD subsequently verifies as eligible to receive angel investments;
3. the number of angel investors who participate either through

- inquiry or investment;
- 4. the aggregate amount of tax credits reserved;
- 5. any ascertainable results of the program for participating businesses and local economies; and
- 6. recommendations for program revisions and improvements.

BACKGROUND

Accredited Investors

Securities and Exchange Commission regulations (Regulation D, Rule 501) define an accredited investor as:

- 1. a bank, insurance company, registered investment company, business development company, or small business investment company;
- 2. an employee benefit plan, as defined in the federal Employee Retirement Income Security Act (ERISA), if (a) it has more than \$5 million in total assets or (b) a bank, insurance company, or registered investment advisor makes its investment decisions;
- 3. a charitable organization, corporation, or partnership with more than \$5 million in assets;
- 4. a director, executive officer, or general partner of the company selling the securities;
- 5. a person with individual net worth, or a couple with joint net worth, of over \$1 million at the time of the security purchase;
- 6. a person with income over \$200,000, or a couple with joint income over \$300,000, in each of the two most recent years and a reasonable expectation of the same income in the current year; and
- 7. a trust with more than \$5 million in assets that is not formed to acquire the offered securities, and whose purchases are made by

a sophisticated person.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 41 Nay 9 (03/14/2008)